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AMERICAN BANKER

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Why Did Fed Finally Reject Northeast Deal?

By GORDON MATTHEWS and BARBARA REHM

NEW YORK — The Federal Reserve Board rejection of Bank of New York Co.'s foot-dragging bid to acquire Northeast Bancorp probably stifles what life was left in the moribund bank merger and acquisition scene.

The question some observers are now asking is whether the Fed has raised the capital requirement for bank mergers.

"I doubt if too many tears are being shed at Bank of New York over this, but the message here may be that regulators right now will not approve any deal in which capital ratios are weakened, even when they don't go below the minimum limits," said Felice M. Gelman, a bank analyst at Dillon Read & Co.

ANALYSIS: *Follow-up on the news*

Meanwhile, Northeast, based in Stamford, Conn., signaled that it is not yet ready to give up the fight. It asserted Thursday that Bank of New York deliberately filed an incomplete application with the Fed to ensure that the deal would be rejected.

'Breach of Contract'

"Northeast believes that the lack of a proper capital plan within the application constitutes a breach of contract, and it will decide within the next few days whether to pursue legal action," Frank J. Kugler Jr., its chairman, said in a statement.

"We were not asked by the Fed to submit a capital plan," responded a spokesman for Bank of New York. "Moreover, the management at Northeast saw this application before it went to the Fed, and we did not previously hear from them that it was incomplete."

The Fed operates mainly behind closed doors. So industry sources were unsure Thursday whether the Bank of New York order, released late Wednesday, signaled that the Fed is applying a higher capital standard to acquisition requests.

Reading Fed Intentions

"I think the Fed has been intensifying, but I'm not sure whether it is an increase or not," said a leading industry lawyer, who did not want to be named. "The Fed is clearly committed to high capital, but I don't think there is a specific level. I think they do it on a case-by-case basis."

About the only clear implication is that "the Fed doesn't like large cash deals," said Mark

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INSIDE NEWS

FINANCE

CALIFORNIA bank stocks were hammered in the wake of estimates of lower earnings for Security Pacific Corp. A Merrill Lynch analyst precipitated the slide by reducing her 1990 earnings estimates to $5.70 a share from $6.35 a share. *Page 16*

AMERICAN STORES Co. closed a $75 million loan this week that was not only sole-agented by a relatively unknown Japanese bank, but syndicated exclusively to regional Japanese lenders. *Page 14*

INTERNATIONAL

THOMAS COOK Group, a unit of Britain's Midland Bank, got Fed approval to acquire the U.S. retail foreign exchange operations of Deak International from Jarden Morgan Ltd., a New Zealand-based financial services company. *Page 7*

CONSUMER

BRITISH CONSUMERS will make more payments with debit cards than checks before the year 2000, a trade group predicts. *Page 8*

MORTGAGES

OPPOSITION from member thrifts of the Federal Home Loan Bank of New York has derailed a plan by that bank to invest in jumbo mortgages. *Page 2*

THE TOP 25 mortgage lenders accounted for 34.7% of all originations last year, up from 31% in 1988, according to a study by SMR Research. *Page 6*

A PROPOSED SALE of one of the Resolution Trust Corp.'s largest mortgage-servicing portfolios has fallen into limbo, with part of the buyer group coming under pressure to exit. *Page 13*

COMMENT

A SUGGESTED amendment requiring lenders to adopt "uniform" pricing could have the effect of hurting the very people the Federal Housing Administration is intended to help, argues Angelo Mozilo. *Page 4*

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Peggy Turbett

WORK IN PROGRESS: Citibank's branch at 55 Wall St. was closed Thursday as Consolidated Edison toiled to restore power in the fourth day of a blackout in the heart of the financial district.

Citibank Works to Bring Accounts Up to Date After Generator Failure

By KAREN GULLO

NEW YORK — Citibank scrambled to update customers' accounts Thursday after bringing in additional generators to restore back-office computer systems for its New York City branches.

A power outage in New York's financial district has become an operational nightmare for the giant bank, affecting key computer systems supporting correspondent and retail banking operations and customer service.

The systems failure delayed posting of withdrawals and deposits to consumers' accounts, but the number of accounts affected could not be determined. Corporate accounts were affected to a lesser degree, bank officials said.

"We're doing catch up right now, but we're almost completely caught up," said Daniel J. Denaci, vice president in charge of retail banking for Citibank in south Manhattan. He said account activity had been posted through Tuesday.

Two Citibank branches, including one at 55 Wall Street, remained closed Thursday because power had not been restored three days after a fire destroyed a utility station operated by Consolidated Edison Co. in lower Manhattan. Customers were diverted to other branches in the area.

Operations for the retail and correspondent banking systems were disrupted Wednesday when a backup generator failed at the bank's downtown Manhattan processing site at 111

See **CITIBANK** *page* **3**

Fed Wire Disrupted, Is Moved to Backup Site

By JEANNE IIDA

NEW YORK — A backup generator at the Federal Reserve Bank of New York failed Thursday morning, disrupting the Fed's nationwide wire-transfer system and adding more confusion to a federal funds trading market already in turmoil following a blackout in Lower Manhattan earlier this week.

The Fed's wire network, which processes more than $900 billion in payments a day, opened two-and-a-half hours late as officials scrambled to move operations to a backup site 24 miles north of the city.

Payment Bottleneck

Corporate and interbank payments faced bottlenecks as the tedious process of linking users to the new site slowed operations well into the afternoon. The Fed Wire was expected to close after its normal 6:30 p.m. deadline, officials said.

"We're not out of the woods yet," E. Gerald Corrigan, president of the New York Fed, told a press conference at 4 p.m. Thursday. "What we are talking about are terribly complex systems."

However, Mr. Corrigan stressed he was encouraged by how the backup system was op-

See **FED** *page* **3**

Hanover Exiting From Sweden And Switzerland

By JOHN EVANS

LONDON — Manufacturers Hanover Trust Co. announced on Thursday that it is closing its branches in Switzerland and Sweden as part of a global restructuring of its wholesale banking business.

The move is consistent with a broad retreat by U.S. banks overseas in the wake of rising credit problems and international concerns about the health of America's banking industry. Though Switzerland has traditionally been considered an essential component for a global banking network, Hanover insisted the pullout will not damage its international operations.

Ten U.S. banks operate branches or subsidiaries in Switzerland, including Citibank, Bank of America, Morgan Guaranty Trust Co. of New York, and

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Ameritrust Will Cut 780 Workers, Take Charge of Up to $18 Million

By NANINE ALEXANDER

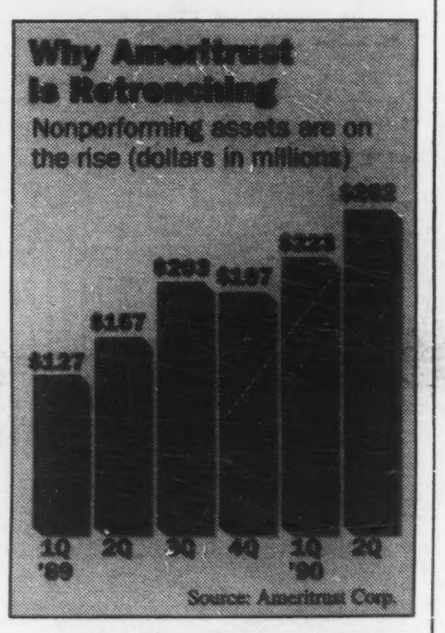
CHICAGO — Ameritrust Corp. announced Thursday that it will reduce its staff by 11.5% and take a charge of as much as $18 million against third-quarter earnings.

The Cleveland-based banking company also disclosed that it has signed a memorandum of understanding with the Office of the Comptroller of the Currency.

Lightest Regulatory Act

A memorandum of understanding is the lightest form of regulatory control; it involves a written declaration that a banking company intends to improve its business practices.

Most analysts were not surprised by Ameritrust's planned restructuring charge, but several said they were concerned about the OCC accord. "I don't think it restricts their operations," said Kenneth F. Puglisi, an analyst at Keefe, Bruyette & Woods Inc., referring to the OCC memorandum, "but it does send a negative signal."



Ameritrust's stock closed Thursday at $14 a share, down 62.5 cents from Wednesday's

See **AMERITRUST** *back page*

COMMENT/ *By Angelo Mozilo*

Amendment Could Injure Low-Income FHA Buyers

The Federal Housing Administration's home-ownership program is intended to facilitate the delivery of mortgage credit to qualified borrowers. Over the years, this purpose has generally been well served.

However, due to the escalation of home prices in recent years, FHA financing has become unsuitable for many buyers in high-cost housing markets because of the unrealistically low loan limit – $124,875 – authorized by Congress.

To add to this problem there is an amendment to the 1990 Housing Bill (HR 1 180), currently wending its way through Congress, that would prohibit lenders from imposing different interest rates, discount points, origination fees, or other charges on FHA loans with different loan amounts.

Tiered Pricing Is Target

Ostensibly, the aim of the amendment, sponsored by Rep. Thomas Ridge, R-Pa., and Rep. Mary Rose Oakar, D-Ohio, is to help lower-income buyers. The proposed legislation would force lenders to make loans in lower-cost areas of the country and control fees charged by eliminating "tiered" pricing.

Mr. Mozilo is president and chief executive officer of Countrywide Funding Corp. and vice president of the Mortgage Bankers Association

In reality, though, it is the customary tiered pricing methodology that has permitted lenders to make loans in economically deprived areas on a sound business basis.

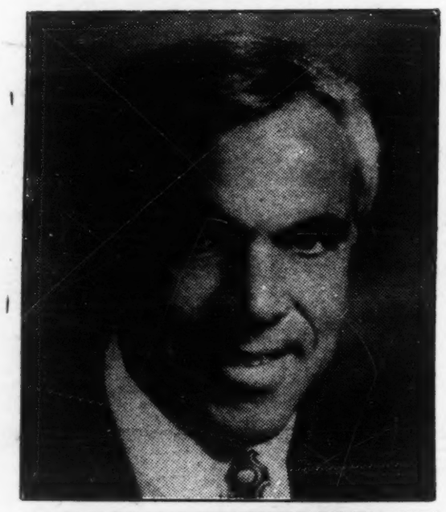
Even if well-intended, as I believe this amendment is, this legislation is an attempt to legislate economics – an impossible task. The authors would make lenders charge the same percentage, regardless of the loan amount.

Unintended Results

This practice, without question, would result in pricing lenders out of those communities where FHA financing is an essential ingredient for the viability of the housing market. The Ridge-Oakar amendment would clearly have the effect of shutting off FHA housing credit to many who are seeking the opportunity of home ownership.

The reason is simple and straightforward: The cost of originating a loan is a dollar amount, not a percentage. Regardless of size, every loan requires the same documentation and time; all loans cost virtually the same amount to originate. This patent fact of economics is the key to understanding the fallacy of the proposed amendment.

Admittedly, if a borrower or a congressman does not understand that our origination costs are roughly equal regardless of



"The true result of an amendment requiring lenders to adopt 'uniform' pricing would be far from uniform."

the size of the loan, then the current method of pricing would appear unfair. However, the true result of an amendment requiring lenders to adopt "uniform" pricing would be far from uniform.

Rather, it would be grossly unfair. Consider the following: Under this amendment, the borrower of $120,000 would pay 12 times as much as the borrower of $10,000. No doubt, higher-balance borrowers are apt to find this difficult to swallow.

Some Basic Arithmetic

A higher number of "points" – the percentage of the loan amount – on lower-balance loans translates into roughly equal dollar amounts being charged by lenders. Let's look at some basic arithmetic equations.

Six points on a $20,000 loan, three points on a $40,000 loan, and one point on a $120,000 loan all add up to the same dollar amount – $1,200. So, under the current tiered pricing structure, each of these hypothetical borrowers pays the same dollar amount to cover the lender's cost – a cost that is about the same in each case.

The proposed amendment is based on the premise that by charging more for higher-balance loans, lenders can subsidize the cost of originating lower-balance loans. This theory, though, is not practicable. Consider that currently the origination fee for all FHA loans is capped by the Department of Housing and Urban Development at 1% of the loan amount.

Originations at a Loss

In effect, higher-balance loans are subsidizing lower-balance loans. However, even on the highest balance loan currently allowed under FHA, which is $124,875, FHA lenders are unable to cover their average origination costs with the current 1% cap. In 1998, the average net loss to originate each single-family loan, regardless of size, was $1,244.

With the origination of loans already operating at a loss, lenders rely on income from points to make origination of these loans economically viable. If a mandate to charge a uniform number of points on all FHA loans, regardless of loan amount, is enacted, the result will be direct subsidization of low-balance borrowers by higher-balance borrowers.

As such, lenders will have no choice but to increase interest rates or points across the board to ensure adequate yields from higher-balance loans to cover costs of originating lower-balance loans.

As the cost of higher-balance FHA loans are forced up, these larger and more profitable loans might be lost by the FHA program to conventional financing. Consequently, the FHA program would be put under even greater financial stress.

Program with a Social Purpose

FHA is unarguably a program with a social purpose – fostering home ownership. But there is nothing in its legislative history mandating direct subsidy from one class of borrowers to another class of borrowers on the pricing of these loans.

The current practice of tiered pricing, where a higher number of points is charged on smaller loans, is not an effort to discriminate against lower-income borrowers or to covertly discourage lending in certain neighborhoods. Lenders have adopted tiered pricing practices simply to cover the cost of originating lower-balance loans.

Forcing lenders to discriminate against their higher-balance loan customers will only hurt the very people the amendment's sponsors are trying to help.

Furthermore, a law that forces a lender to operate at a perennial deficit would be unconstitutional. Such a law would only force lenders to shut off the availability of housing loans to those seeking small balances, thus taking home ownership away from the very American families that FHA has historically been intended to help. □

LETTERS *to the editor*

Idea of Limiting FDIC Coverage Seen Threat to Banking System

To the Editor:

After having read Linda Corman's article "Putting Limits on Insurance: Is It Practical?" [Aug. 2, page 1], I felt a few comments were appropriate.

Congress couldn't pick a worse time to consider reducing or curtailing Federal Deposit Insurance Corp. coverage. Obviously, there is no confidence in the savings and loan industry. Confidence in the banking industry is also dwindling, so reducing the insurance would only result in further erosion of confidence in the banking system. It is critical for the country, and maybe the world, that the financial system of the United States remain strong.

Savings Would Suffer

Americans don't save enough at present. Reducing insurance coverage would surely cause disintermediation, thereby reducing the banking system's ability to finance capital investments. Also, lowering the insurance would cause people who can afford to save to seek other investment opportunities.

I would respectfully suggest the most prudent use of the peace dividend is clearly to satisfy the government's obligations with regard to the savings and loan bailout. If our children are to enjoy at least the standard of living they are accustomed to, we simply owe it to them to get our financial house in order.

Congress' Priority

We all know what the cure is — raise taxes and reduce expenditures. When will members of Congress make this their No. 1 priority rather than thinking about getting reelected? (Actually, that's probably one of the main reasons why we are in this position). If they only could hear President Kennedy once again: "Ask not what your country can do for you; ask what you can do for your country."

In conclusion, the key to a strong financial system is having confidence in the banking industry – and FDIC insurance just happens to be the cornerstone.

William W. Davis Jr.
President, chief operating officer
Third National Bank & Trust
Scranton, Pa.

Reforming Mortgage Insurance

To the Editor:

An article your newspaper ran Aug. 2 on the overhaul of Federal Housing Administration mortgage insurance ["House Votes for Overhaul of FHA Mortgage Insurance," page 7] was incomplete in describing the Vento-Ridge amendment. Our amendment includes several meaningful reforms to maintain the safety and soundness of the FHA insurance fund.

The Bush administration's proposal and our amendment both meet a higher capital standard for the FHA fund, but our amendment does it in a manner that is less harmful to potential homebuyers. The Vento-Ridge amendment will restore FHA to sound financial footing without the adverse side-effects of the administration's proposal.

With young families finding it more and more difficult to purchase a home, it is imperative that we do not impose unnecessary obstacles to home ownership.

Rep. Bruce F. Vento
Democrat of Minnesota
Rep. Thomas J. Ridge
Republican of Pennsylvania

Editor's Note: The Vento-Ridge proposal, which would lower the initial FHA mortgage-insurance fee payable by homebuyers and spread the cost over the life of the loan, passed the House in late July on a vote of 418 to 2.

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CONSUMER NEWS

SMALL BUSINESS

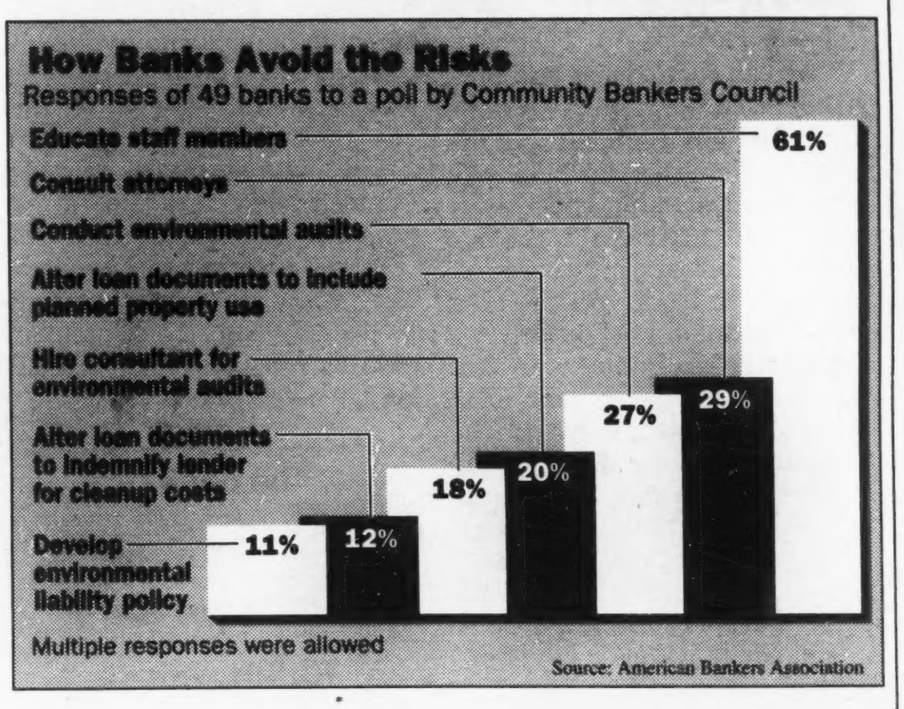
Lenders Skittish over Cleanup Liability

By LAURYN FRANZONI
Special to the American Banker

Concerns about environmental liability are prompting small-business bankers to alter their lending policies, according to a recent survey.

The 49 bankers who responded to a poll by the American Bankers Association's Community Bankers Council reported being "concerned" or "very concerned" about environmental liability. More than three out of four said they had changed their lending policies in some way to avoid it.

Banks can become liable for cleanups of contaminated sites in several ways under the Superfund regulations enforced by the Environmental Protection Agency. If the borrower is unable to pay for decontamination or is unable to repay a loan because of environmental liabilities, the bank may have to pay for the cleanup.



Conditions of Liability

A bank may also be liable for a cleanup if it exercises control over a borrower's board or influences management's daily operating decisions, if it forecloses on contaminated property and becomes the owner, or if its trust department owns or manages property as a trustee or executor.

Community banks with assets of less than $250 million appear to be most concerned about the potential threat.

"We have to look cautiously at any loan," said J. Bart Colwell, executive vice president of First State Bank, Brazil, Ind. "EPA is using Superfund to go after the deep pockets that a bank has when the borrower doesn't have the resources. Even government officials say people who never expected to be associated with the property will be."

Certain Businesses Shunned

Mr. Colwell said his bank has turned down some loan applications from dry cleaners, service stations, and manufacturing companies in recent months because of the potential risk. In one case, the bank backed away from an oil distributor whose business it had pursued for five years.

The biggest threat Mr. Colwell sees is a trend toward assigning liability to banks when they provide financial advice to their clients. "Lenders have been construed to be operators if they serve on the board of directors of the business," he said.

"In small communities like ours, a lot of what we do is provide financial advice," he said. "That could make us liable for the cleanup." First State is a $34 million-asset unit of First Financial Corp., which has $800 million in assets.

"It's scary when you look at the overall impact on economic development of small communities," Mr. Colwell said. In addition, he fears that loans made through Small Business Administration programs will be curtailed because of the agency's tradition of providing operating and management advice to its borrowers. Based on current legal trends, even the SBA could become liable for an environmental cleanup.

Strong Impact Seen

According to David Gohn, chairman of the ABA community bankers' council and president of West Plains Bank, West Plains, Mo., "The results of the survey emphasize how strongly environmental liability is impacting banks and their customers." The ABA did not ask members how much they have spent on cleanup activities.

The ABA reports that banks are already taking steps to protect themselves. Several respondents said they have consulted attorneys, arranged environmental audits, and redrafted loan documents.

Some banks have altered their loan papers to include borrower information about the loans and planned property use. Others have redrafted loan documents to have the borrower indemnify the lender for all cleanup costs, regardless of fault.

Even though a small number have made such changes to date, more than half of those surveyed plan to begin environmental audits and a third plan to revise loan documents.

Mr. Colwell of First State says all banks – and especially community banks – should be reviewing their exposure. "You've got to know what the borrower is doing with the property," he said. "Chances are, if he's producing anything, the property can be contaminated." Agricultural loans should also be examined, because chemicals used for fertilizers and other purposes are under increased scrutiny as pollutants.

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

Debit Card Use In Britain May Outrun Checks by 2000

By JOHN EVANS

LONDON — British consumers will make more payments with debit cards than checks before the year 2000, according to an industry forecast.

The cards, which are essentially plastic checks, will account for more than four billion consumer payments in 2000, versus fewer than three billion via checks, predicted the Association for Payment Clearing Services.

The industry group, which is operated by Britain's major commercial banks, expects debit cards to emerge as the dominant force driving consumer banking business in Great Britain. Debit card transactions totaled 60 million last year. Some 13.5 million cards are in use, for a penetration of about 30% of the British adult population.

Checks Seen Peaking in '91

Check volume, whose growth has been slowing in recent years, is expected to peak this year or in 1991 at about 3.7 billion items before declining during the remainder of the 1990s.

Debit cards will also cut into the market for credit cards, held by about 40% of the adult population, the association said. Credit card transactions grew only 4% last year; debit cards may cause volumes to level off or even fall, the group said.

This trend may be accentuated by a recent antitrust ruling ordering banks to stop discrimination practices that have prevented retailers from offering discounts for cash transactions.

Use of Cards to Quadruple

Withdrawals through automated teller machines are expected to continue rising rapidly, reaching almost 1.4 billion by 2000, compared with more than 800 million in 1989.

Overall, transactions made with all types of plastic cards are likely to quadruple from 1.7 billion last year to about 6.6 billion in 2000, the group said.

Total transmissions of non-cash items, including direct debits from checking accounts for charges like utility bills, will grow about 5% annually, reaching 13 billion items by the year 2000, according to the association's research. The predictions were based on trends among the almost 90% of adults in Britain who now hold some form of bank or thrift account.

Spending patterns are expected to favor Britain's banks.

These spending patterns are expected to favor Britain's banks, which are facing rising costs in their credit card operations, industry analysts say. Growing numbers of customers are paying their card bills on time to gain free credit for a month.

While some banks here have begun to add annual charges for credit cards, they are also strongly promoting debit cards. Banks stand to make an estimated $750 million annually by processing debit transactions for retailers.

The main cooperative debit card system in Britain is Switch, whose chief operator is Midland Bank PLC. □

AMERICAN BANKER /*Bank Rate Monitor's*™

Consumer Money Index — Highest Retail Yields and Jumbo Rates

These are the highest jumbo CD rates and retail CD yields offered on August 15 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assigns 0 (lowest) to 3 (highest) star to the institutions. Information from Veribanc is believed to be reliable, but the accuracy, adequacy, and completeness of the information is not guaranteed.

Retail Yields

Six-month		
Heritage Svgs Bank, Richmond, Va.		8.82%
John Hanson Svgs, Beltsville, Md.	★	8.75
Maine Savings Bank, Portland		8.72
Imperial Fed Svgs, San Diego, Calif.		8.67
First Dep Nat'l Bk, Tilton, N.H.	★★★	8.63
One-year		
Heritage Svgs Bank, Richmond, Va.		8.93%
Maine Savings Bank, Portland		8.78
Imperial Fed Svgs, San Diego, Calif.		8.78
John Hanson Svgs, Beltsville, Md.	★	8.75
NVR Svgs Bank, Mclean, Va.	★	8.70
Five-year		
NVR Svgs Bank, Mclean, Va.	★	8.80%
Eastern Svgs Bank, Hunt Valley, Md.	★★	8.75
The Bank Mart, Trumbull, Conn.	★	8.75
Calif. Thrift&Loan, Santa Barbara, Calif.	★★★	8.73
Virginia Beach Fed Svgs Bk, Virginia Beach	★★	8.72

Jumbo Rates

Six-month		
First America Fed Svgs Bk, Longmont, Colo.	★	8.60%
Heritage Svgs Bank, Richmond, Va.		8.55
Western Gulf S&L, Bay City, Tex.		8.50
Brookside S&L, Los Angeles, Calif.		8.50
Westwood Savings & Loan, Westwood, Calif.		8.50
One-year		
Calif. Thrift&Loan, Santa Barbara, Calif.	★★★	8.65%
Heritage Svgs Bank, Richmond, Va.		8.65
Western Gulf S&L, Bay City, Tex.		8.63
Imperial Fed Svgs, San Diego, Calif.		8.50
American General Fin'l Center, Midvale Utah	★★★	8.45
Five-year		
Metroplitan Bank for Svgs, Arlington, Va.	★★★	9.00%
Bank Hapoalim, Chicago, Ill.		8.75
Am General Fin. Ctr. Thrift, San Francisco	★★★	8.70
Brownsville Bank, Brownsville, Tenn.	★★★	8.50
CorEast Svgs Bank, Richmond, Va.	★	8.50

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Securitization: Can It Work in Middle Market?

By SANFORD ROSE

As pointed out in a recent report in this newspaper, some banks have expressed an interest in securitizing middle-market loans. What are the obstacles to securitization of commercial as opposed to consumer loans? And how can these obstacles be surmounted?

Economic theory and common sense – unfortunately, the two don't always coincide – seem to hold that a market will not long exist if the inequality of information between buyers and sellers is too great.

An asymmetry of information between buyers and sellers causes a problem if two conditions hold: First, the seller has detrimental information about a product, say a loan, that he chooses to withhold from the potential buyer; and, second, the cost to the buyer of discovering the relevant information on his own is significant relative to the value of the product.

Comment

If sellers withhold information and buyers have no cost-effective way to obtain that information, a market cannot long be sustained. This is called the agency or adverse-selection problem.

There apparently is only a small agency problem when banks sell the loans of rated companies to other banks, thrifts, or pension funds. The buyer has access to the agency ratings at minimal cost in order to remedy his information disparity.

Role of Deal Managers

There is a somewhat larger, though still perhaps not an insuperable, agency problem when pieces of large, well-publicized leveraged buyout credits are sold down. The deal managers and the agent banks make it their business to clarify the nature of the cash-flow projections, thus eliminating the information asymmetries.

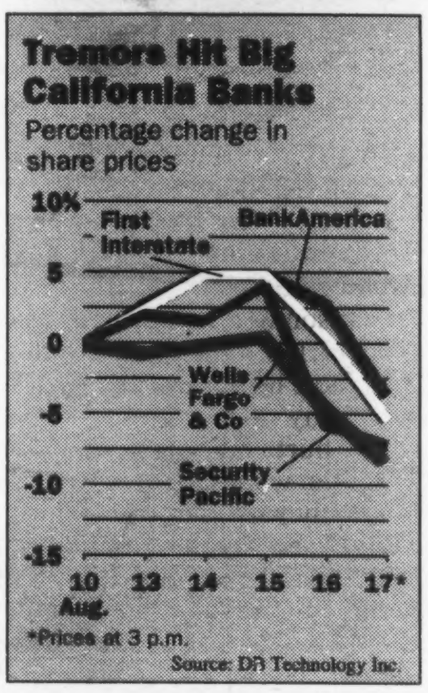
But there is a larger and perhaps formidable agency problem when banks sell pieces of less-publicized LBO deals, or when they sell middle-market commercial loans. How does the buyer know that he isn't getting a lemon?

If the buyer knows less about the credit than the seller and lacks the ability to bridge this information gap in a cost-effective fashion, shouldn't he demand a higher yield on the loan than did

See **LOAN** *page* **8**

INSIDE NEWS

FINANCE



MAJOR BANK stocks and the broader market were clobbered again Friday on concerns that rising inflation and weak real estate markets have put the Fed in a no-win position. *Page 16*

THE NEW JERSEY Gaming Commission is expected to approve a $65 million bridge loan for Donald Trump, despite its doubts that the Trump real estate empire can support the restructured debt load. *Page 14*

OPERATIONS

AS PAYMENTS systems returned to a semblance of normality after the power outage in Lower Manhattan, bankers braced for more unpleasant surprises. *Page 2*

NEW ENGLAND

BANK OF New England Corp. has received a firm offer for its Rhode Island unit, but regulators will approve the sale only if the proceeds are pumped into the bank's troubled flagship bank in Boston, according to a filing with the SEC. *Page 2*

CONSUMER

MNC FINANCIAL Inc. is said to be gearing for growth in its credit card operation despite heavy losses from real estate loans. *Page 6*

WASHINGTON

MONTHS AFTER Justice Department officials were pilloried by Congress for not working fast enough to throw wayward thrift executives in jail, the agency is boasting bigger numbers. *Page 9*

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RJR Loan Is Flop in Syndication

By STEVEN LIPIN

The general syndication of RJR Nabisco Inc.'s $2.25 billion bank facility is basically a failure.

While some bankers boasted that the $7 billion in commitments the company received reflected the willingness of commercial lenders to invest in RJR, agent banks had sold a mere $200 million as of Friday. That's out of a pool of roughly $1.4 billion that they are trying to sell off. Bankers in and out of the deal attribute the failure to the skimpy fees reoffered.

The general syndicate is set to expire Aug. 24, and banks will likely continue selling in the secondary market. Officials in the deal did not expect to sell much more of the deal before Friday's deadline.

'Not Too Pretty'

"A billion four went in and over a billion is coming out," said one syndicate official in the deal. "That's not too pretty."

While RJR is not directly affected, the figures are significant because many banks, reluctant to increase their exposure to highly leveraged transactions, will nevertheless be holding a greater portion of RJR loans than they had hoped.

Most do not want to retain more than $25 million to $50 million, bankers in the deal say. With concerns over credit quality from both regulators and shareholders, "the trend is to get fees up and risks down," one banker involved in the deal said.

Secondary Fees Blamed

And the fees are certainly generous in the RJR Nabisco deal. Not only are fees over 300 basis

See **RJR** *page* **13**

Gonzalez Seeks Ouster Of Vocal FDIC Critic

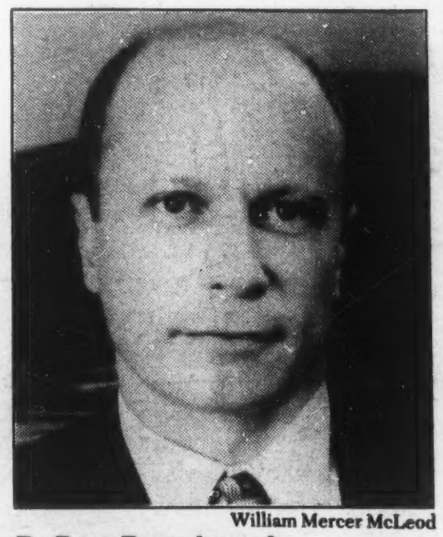
By BARBARA A. REHM

WASHINGTON — House Banking Committee Chairman Henry B. Gonzalez is seeking to fire the outspoken economist R. Dan Brumbaugh from a committee-sanctioned study of the Federal Deposit Insurance Corp.

Mr. Brumbaugh, a senior research scholar at Stanford University and one of three economists preparing a report for the House financial institutions subcommittee, has attracted considerable media attention in recent weeks to his argument that the bank insurance fund is technically insolvent and inadequate to handle a likely spate of bank failures.

Objectivity Questioned

Mr. Gonzalez said in an interview last week that Mr. Brumbaugh is unable to do an objective analysis of the FDIC



William Mercer McLeod

R. Dan Brumbaugh
Stanford economist

because he has testified against the government in lawsuits against thrift managers.

"I wasn't aware of his involvement as a paid witness against FDIC," the Texas Democrat said, referring to Mr. Brum-

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Morgan Helps Japanese Bank Skirt Barrier to Subordinated Bond Issue

By KELLEY HOLLAND

A Japanese bank Friday found a way around a recent move by the Ministry of Finance to make it more difficult to issue subordinated bonds.

A J.P. Morgan & Co. unit devised an innovative method of skirting the ministry's near prohibition and used it to help Dai-Ichi Kangyo Bank Ltd. raise $500 million in capital.

Ministry's Stand Assessed

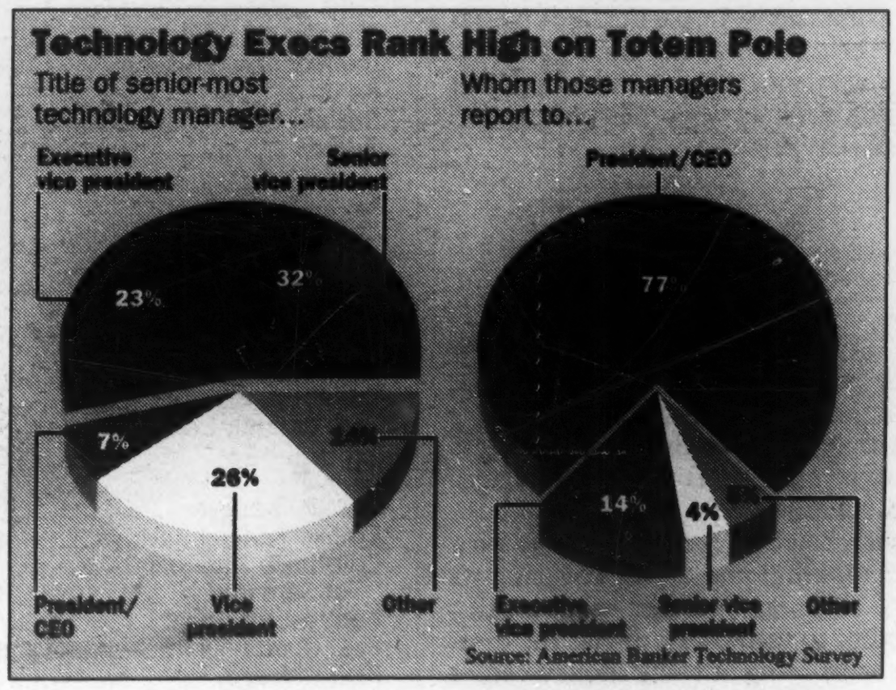
Capital markets specialists said they expect the ministry's restrictions to be short-lived in any case. "They want to put people on hold for a month or two while they reconsider," said one investment banker. "They're not shutting [the banks] down."

The Ministry of Finance authorized Japanese banks to issue subordinated loans early this summer in a move to give banks more options for raising capital. At that time, ministry officials indicated they would not rule out authorizing banks to issue public subordinated bonds but said such deals would be approved only case-by-case.

Almost immediately after its decision on subordinated debt issuance was made public, the ministry allowed a subsidiary of

See **DAI-ICHI** *back page*

CEOs Jump on Technology Bandwagon



By JEFFREY KUTLER

NEW YORK — Shedding some of banking's past conservatism and mistrust of computers, chief executive officers are getting in on the technology act. They are doing so with great enthusiasm and, perhaps paradoxically, gaining the loyalty and respect of underlings from very different career backgrounds.

The CEOs' increasingly hands-on role and technology managers' positive response are clearly evident in the 1990 *American Banker* technology survey.

At three out of four institutions, the top operations or tech-

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NOTE

ONLY THE FOLLOWING PAGES OF THIS

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